

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Financial Statements
March 31, 2016

Management's Report

Management's Responsibility for the Financial Statements

The financial statements have been prepared by management in accordance with Canadian accounting standards for pension plans and the integrity and objectivity of these statements are management's responsibility. Management is responsible for the notes to the financial statements and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is responsible for implementing and maintaining a system of internal control to provide reasonable assurance that reliable financial information is produced.

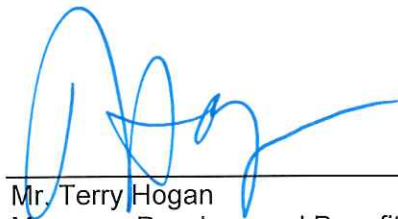
The Civil Service Superannuation Commission is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Commission reviews internal financial reports on a regular basis and externally audited financial statements yearly.

The Auditor General conducts an independent examination, in accordance with Canadian generally accepted auditing standards and expresses her opinion on the financial statements. The Auditor General has full and free access to financial information and management of the Prince Edward Island Civil Service Superannuation Fund to meet when required.

On behalf of the Prince Edward Island Civil Service Superannuation Fund



Mr. Neil Stewart, CPA, CA
Deputy Minister, Department of Finance



Mr. Terry Hogan
Manager, Pensions and Benefits Division

July 25, 2018



Prince Edward Island Île-du-Prince-Édouard

Office of the Auditor General

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the Prince Edward Island Civil Service Superannuation Fund

I have audited the financial statements of the **Prince Edward Island Civil Service Superannuation Fund** which comprise the statement of financial position as at March 31, 2016, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted the audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2016, and the changes in its net assets available for benefits and its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

B. Jane MacAdam, CPA, CA
Auditor General

Charlottetown, Prince Edward Island
July 25, 2018

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Statement of Financial Position
March 31, 2016

| | 2016 | 2015 |
|---|----------------------------|----------------------------|
| | \$ | \$ |
| Assets | | |
| Cash | 3,319,989 | 3,680,702 |
| Investments (Note 3) | 1,399,675,231 | 1,411,113,177 |
| Note receivable (Note 5) | 337,062,980 | 357,339,120 |
| Receivables | | |
| Contributions - employee | 1,684,784 | 1,515,284 |
| - employer | 1,700,377 | 1,534,711 |
| Accrued interest | 3,913,324 | 4,237,138 |
| Other | <u>1,143,126</u> | <u>631,872</u> |
| Total Assets | <u>1,748,499,811</u> | <u>1,780,052,004</u> |
| Liabilities | | |
| Accounts payable and accrued liabilities | 2,056,642 | 2,424,348 |
| Remittances payable | 1,041,123 | 1,021,501 |
| Investment fees payable | 1,360,401 | 1,349,720 |
| Due to the Province of Prince Edward Island | <u>1,137,645</u> | <u>1,153,988</u> |
| Total Liabilities | <u>5,595,811</u> | <u>5,949,557</u> |
| Net Assets Available for Benefits | <u>1,742,904,000</u> | <u>1,774,102,447</u> |
| Accrued Pension Obligation (Note 4) | <u>1,742,904,000</u> | <u>1,774,102,447</u> |
| Net Surplus (Deficit) | <u> -</u> | <u> -</u> |

(The accompanying notes are an integral part of these financial statements.)

Approved on behalf of the Prince Edward Island Civil Service Superannuation Fund


Chairperson


Commissioner

PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND
Statement of Changes in Net Assets Available for Benefits
for the year ended March 31, 2016

| | 2016 | 2015 |
|--|----------------------|----------------------|
| | \$ | \$ |
| Increase in Assets | | |
| Investment income (Note 3(a)) | | |
| Interest | 12,387,549 | 14,032,658 |
| Dividends | 55,940,778 | 40,371,131 |
| Change in fair value of investments | <u>(97,562,057)</u> | <u>74,234,057</u> |
| | (29,233,730) | 128,637,846 |
| Other interest income | 12,801,045 | 13,483,409 |
| Contributions | | |
| Employee | 30,948,530 | 30,299,748 |
| Employer | 30,949,614 | 30,299,794 |
| Transfers from other plans | 434,791 | 162,962 |
| Purchased service | <u>361,374</u> | <u>487,855</u> |
| | <u>46,261,624</u> | <u>203,371,614</u> |
| Decrease in Assets | | |
| Benefits paid | 67,636,171 | 62,588,523 |
| Operating expenses (Note 6) | 7,399,947 | 6,877,720 |
| Refunds | 1,399,063 | 1,381,437 |
| Transfers | <u>1,024,890</u> | <u>638,500</u> |
| | <u>77,460,071</u> | <u>71,486,180</u> |
| Change in Net Assets | (31,198,447) | 131,885,434 |
| Net Assets Available for Benefits, beginning of the year | <u>1,774,102,447</u> | <u>1,642,217,013</u> |
| Net Assets Available for Benefits, end of year | <u>1,742,904,000</u> | <u>1,774,102,447</u> |

(The accompanying notes are an integral part of these financial statements.)

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Statement of Changes in Pension Obligation
for the year ended March 31, 2016

| | 2016 | 2015 |
|---|----------------------|----------------------|
| | \$ | \$ |
| Accrued Pension Obligation, beginning of year | 1,774,102,447 | 1,642,146,000 |
| Change in Accrued Pension Obligation | | |
| Interest accrued on benefits | 96,887,173 | 93,797,777 |
| Benefits accrued | 44,228,976 | 42,197,012 |
| Increase due to purchase service | 796,165 | 650,818 |
| Benefits paid | (70,060,124) | (64,608,460) |
| Loss (gain) on experience and assumption changes | 32,759,890 | 42,576,023 |
| Decrease due to contingent indexation | <u>(135,810,527)</u> | <u>17,343,277</u> |
| Change in Accrued Pension Obligation | <u>(31,198,447)</u> | <u>131,956,447</u> |
| Accrued Pension Obligation, end of year (Note 4) | <u>1,742,904,000</u> | <u>1,774,102,447</u> |

(The accompanying notes are an integral part of these financial statements.)

PRINCE EDWARD ISLAND CIVIL SERVICE SUPERANNUATION FUND

Notes to Financial Statements
March 31, 2016

1. Plan Description

The following description of the Prince Edward Island Civil Service Superannuation Pension Plan (the Plan) is a summary only. For more complete information, reference should be made to the *Civil Service Superannuation Act and Regulations*.

a) General

The Plan is a contributory defined benefit plan covering members as defined in the *Civil Service Superannuation Act*.

b) Contributions

Under the Plan, members make contributions amounting to 8.09 percent of that part of the members' salary up to the amount of the year's maximum pensionable earnings (YMPE) as defined in the *Canadian Pension Plan Act* and 9.75 percent of the amount that exceeds the YMPE. Participating employers match member contributions. Herein these are considered the Base Contributions. For 2014 to 2016, contributions will remain fixed unless they are deemed ineligible based on the maximum contributions allowed under the *Income Tax Act (ITA)*. After 2016, variable contributions have been introduced based on the funded benefits ratio as defined below (note that contribution changes by funded level are total and not cumulative).

| Funded Benefits Ratio | Employee Contributions ¹ | Participating Employer Contributions ¹ |
|---------------------------|-------------------------------------|---|
| <100% ² | Base Contributions plus 1% | Base Contributions plus 4% |
| 100% to 110% ³ | Base Contributions plus 1% | Base Contributions plus 2% |
| 110% to 135% | Base Contributions | Base Contributions |
| 135% to 145% ⁴ | Base Contributions less 1% | Base Contributions less 2% |
| 145% + ⁵ | Base Contributions less 1% | Base Contributions less 4% |

¹ Subject to the *Income Tax Act Rules* for maximum contributions.

² If triggered, contributions based on funded benefits ratio <100% remain in effect until funded benefits ratio of ≥ 105% is attained.

³ If triggered, contributions based on funded benefits ratio <110% remain in effect until funded benefits ratio of ≥ 115% is attained.

⁴ If triggered, contributions based on funded benefits ratio ≥135% remain in effect until funded benefits ratio of ≤ 130% is attained.

⁵ If triggered, contributions based on funded benefits ratio ≥145% remain in effect until funded benefits ratio of ≤ 140% is attained.

PRINCE EDWARD ISLAND CIVIL SERVICE SUPERANNUATION FUND

Notes to Financial Statements
March 31, 2016

1. Plan Description (continued...)

c) Retirement Benefits

Pension Formula: The annual pension is based on the number of years of service times two percent of average salary with a reduction at age 65 for estimated Canada Pension Plan ("CPP") benefits. The reduction is referred to as a bridge pension and only payable to age 65. The bridge is based on the number of years of service times 0.7% of average salary to a maximum of the average CPP year's maximum pensionable earnings. For Service prior to December 31, 2013, average salary and year's maximum pensionable earnings is based on the best three year average. For service commencing January 1, 2014, average salary and year's maximum pensionable earnings is based on career average.

Pre-Retirement Indexation: Benefits earned during 2014 to 2016 were automatically indexed at 1.5 percent per annum. As this indexation is guaranteed, it is included in the Base Benefits, which are the Plan benefits prior to any future contingent indexation. In 2017 and beyond, pre-retirement indexation will only be awarded if the funded benefits ratio (as determined at the April 1st immediately prior to the calendar year in which indexation is to be awarded) is greater than 100 percent. If there are years that full indexation is not awarded, and if the funded benefits ratio subsequently reaches 115 percent, then a portion of Plan funds is available to make up for missed indexation in the past. The maximum indexation is 100 percent of the increase in the Average Industrial Wage ("AIW") in Canada, however, if in any year the assets available to be spent on inflation protection are not adequate to provide the full amount, partial indexation will be awarded.

Post-Retirement Indexation: For 2014 to 2016, post-retirement indexation was automatically awarded at 1.5 percent per annum. As this indexation is guaranteed, it is included in the Base Benefits. In 2017 and beyond, post-retirement indexation will only be awarded if the funded benefits ratio (as determined at the April 1st immediately prior to the calendar year in which indexation is to be awarded) is greater than 110 percent. If there are years that full post-retirement indexation is not awarded, and if the funded benefit ratio subsequently reaches 118 percent, then a portion of Plan funds is available to make up for missed past indexation on a go-forward basis (i.e. no retroactive payments). The maximum indexation is 100 percent of CPI; however, if the Plan cannot afford that amount, partial indexation will be awarded. Indexation also applies to deferred vested benefits and is applied in the same manner as the post-retirement indexation.

Retirement Age: For pensionable service prior to January 1, 2019, the earliest unreduced retirement age remains at the earlier of 30 years of pensionable service (minimum of age 55) and attained age 60. For pensionable service after December 31, 2018, the earliest unreduced retirement age will be the earlier of 32 years of pensionable service (minimum of age 55) and attained age 62. The earliest retirement age is 55 with two years of continuous service.

PRINCE EDWARD ISLAND CIVIL SERVICE SUPERANNUATION FUND

Notes to Financial Statements
March 31, 2016

1. Plan Description (continued...)

d) Death Benefits

Less than two years of continuous service: On the death of a member prior to completing two years of pensionable service, or after completing two years of service but leaving no surviving spouse, or dependent children, the member's accumulated contributions with interest will be refunded.

Greater than or equal to two years of continuous service: If a member dies prior to retirement but after completing two years of service, the member's spouse is entitled to an immediate lifetime pension equal to 60 percent of the accrued, unreduced pension of the member at the time of death. In addition to the spousal pension, an allowance equal to one-sixth of the pension paid to the surviving spouse is payable in respect of each dependent child, up to a maximum of four children, until the child attains the age of 18 or until the age of 21 if the child is attending school full-time, or for life if the child is incapable by reason of mental or physical infirmity of pursuing on a regular basis any substantially gainful employment and is a dependant for life.

If the spouse of the member dies before the member, or where having survived the member the surviving spouse dies leaving children by the member, the sixty per cent pension that was payable to the spouse will be paid to the dependant children, until the child attains the age of 18 or until the age of 21 if the child is attending school full-time, or for life if the child is incapable by reason of mental or physical infirmity of pursuing on a regular basis any substantially gainful employment and is a dependant for life.

e) Termination and Portability of Benefits

In the event of termination of employment for reasons other than retirement or death, a member may elect to receive either:

- a refund of the member's own contributions with interest (provided the member is 60 years of age or less at the time the refund application is received), or
- if the member has completed at least two years of service, a deferred pension subject to the provisions outlined in the Retirement Age section above.

Where there are portability arrangements between the Plan and other plans, members may be able to carry certain pension rights to those other plans or transfer contributions and service from those other plans to increase pension benefits under the Plan.

f) Marriage Breakdowns

Upon application, the pension benefits to which a person is entitled may be divided between the person and the spouse or former spouse.

PRINCE EDWARD ISLAND CIVIL SERVICE SUPERANNUATION FUND

Notes to Financial Statements
March 31, 2016

g) Income Tax

The Fund is a Registered Pension Plan as defined under the federal *Income Tax Act* and is not subject to taxation.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared in accordance with Canadian accounting standards for pension plans as outlined in the Chartered Professional Accountants of Canada (CPA) Handbook Section 4600, Pension Plans. For accounting policies that do not relate to either investments or pension obligations, the Fund has elected to comply on a consistent basis with accounting standards for International Financial Reporting Standards (IFRS) in Part I of the CPA Handbook. To the extent that IFRS in Part I is inconsistent with Section 4600, Section 4600 takes precedence.

Included in the determination of the accrued benefit obligation for pension retirement benefits is a liability for contingent indexation.

For the year ended March 31, 2016, the contingent indexation liability is calculated based on total plan assets less the accrued benefit obligation assuming no further contingent indexation. This calculation does not incorporate the potential impact of future events such as contributions, gains and losses on asset returns and new benefit accruals.

Significant judgment is involved in the accounting treatment of contingent indexation. Management recognizes that the contingent indexation liability represents a new challenge for pensions in Canada. Going forward, management will continue to monitor developments in the accounting standards and practices when assessing the most appropriate accounting treatment for plans with a contingent indexation liability component.

These financial statements are prepared on a going concern basis and present the aggregate financial position of the Fund as a separate reporting entity.

a) Use of Estimates and Measurement Uncertainty

The preparation of financial statements in conformity with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of the revenues and expenses during the period. Items requiring the use of significant estimates include investments, accrued interest, accrued liabilities, and the accrued pension obligation.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates and the differences could be material.

PRINCE EDWARD ISLAND CIVIL SERVICE SUPERANNUATION FUND

Notes to Financial Statements
March 31, 2016

2. Summary of Significant Accounting Policies (continued...)

b) Foreign Currency Translation

Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing on the transaction date. The fair value of foreign investments and cash held at year-end are translated at the rates in effect at that date. The resulting gain or loss from changes in these rates is included in the current period change in fair value of investments.

c) Fair Value Measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Fund measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Fund establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, and/or discounted cash flow analysis.

d) Financial Instruments

The Fund's financial instruments include cash, contributions and other receivables, accrued interest, notes receivable, investments, accounts payable, accrued liabilities, remittances payable, amounts due to the Province of Prince Edward Island, investment fees payable, and accrued pension obligation. Due to their nature, the Fund's financial instruments, with the exception of investments, are carried at cost which approximates their fair value. Investments are carried at fair value and are subject to interest, credit, currency, price, and liquidity risks as described in Note 3.

e) Investments

Investments represent a pool of assets held in a master trust and allocated to each member by units of participation. The Prince Edward Island Master Trust represents a contract between the members (contributors) and the trustee (Minister of Finance). All investments held by the Master Trust are classified as held for trading. Investments are designated at fair value through the statement of changes in net assets available for benefits. Investment purchase and sale decisions are based on their fair value in accordance with the Master Trust's Statement of Investment Policies and Procedures.

PRINCE EDWARD ISLAND CIVIL SERVICE SUPERANNUATION FUND

Notes to Financial Statements
March 31, 2016

2. Summary of Significant Accounting Policies (continued...)

Significant accounting policies for the pool of assets held in the Master Trust consist of:

(i) Investment transactions

Investment transactions are recognized on the transaction date. Distributions are recognized on the record date. Investments include receivables and payables at March 31, 2016, for interest, dividends, and settled derivative contracts.

(ii) Income recognition

Income from investments is recorded on an accrual basis and includes interest and dividends as well as realized and unrealized gains and losses on investments.

(iii) Investment valuation

Equity and debt

Equity and debt investments are valued at fair value based on quoted market values. Changes in the market value of investments, including realized and unrealized gains and losses, are reflected in the financial statements as a change in the fair value of investments.

Equity investment in real estate

Investment in real estate is represented by an equity investment in a corporation that invests in real estate, participating mortgages, and property for development or resale. Properties within the corporation are valued annually by independent appraisers in accordance with generally accepted appraisal practices and procedures. The appraisal methodology followed is an income approach which is mainly based on discounted cash flows. In estimating future cash flows, certain assumptions are made with respect to future economic conditions and rates of return.

Pooled funds

Pooled funds are valued at the unit values supplied by the pooled fund administrator, which represents the Fund's proportionate share of underlying net assets at fair values determined using closing market prices.

Derivative contracts

The derivative contracts held by the Fund are stated at fair value and are valued using quoted market indices. Realized and unrealized gains or losses on investments from derivative contracts are included in the change in the fair value of investments.

Investment in foreign infrastructure

The Fund owns units in a foreign infrastructure partnership. The partnership invests in portfolio companies that own, operate, develop, manage, and support infrastructure assets. Fair value is based upon a number of factors, including readily available market quotes with appropriate adjustments for trading restrictions, the most recent round of financings, earning-multiple analysis using comparable companies or discounted cash flow analysis.

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

2. Summary of Significant Accounting Policies (continued...)

(iv) Transaction costs

Investment management fees are costs directly attributable to the external management of the assets. Fees incurred on the management of equity holdings in real estate and foreign infrastructure investments are paid directly as a reduction in the fair value of the investment. Fees incurred on the management of other investments are recorded as an investment expense.

f) Revenues and Expenses

Revenues and expenses are recorded on an accrual basis in the period in which the transaction or event that gave rise to the revenue or expense occurred.

g) Accrued Pension Obligation

The value of the accrued pension obligation of the Fund is based on an annual actuarial valuation prepared on an accounting basis by an independent actuary using the projected unit credit method pro-rated on service and best estimate assumptions. The accrued pension obligation is measured in accordance with accepted actuarial methods using actuarial assumptions and methods adopted by the Fund.

3. Investments and Derivatives

a) Investments

Investments consist of units held in the Master Trust. At year-end, there were 1,014,292.013 units held in the Master Trust (2015 - 940,865.149), with a fair value of \$1,379.95 (2015 - \$1,499.80) per unit.

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

3. Investments and Derivatives (continued...)

Investments of the Master Trust consist of the following listed assets.

| | <u>2016</u> | <u>%</u> | <u>2015</u> | <u>%</u> |
|-----------------------------------|----------------------|---------------|----------------------|---------------|
| | \$ | | \$ | |
| Canadian short-term investments | 22,525,011 | 1.1 | 199,270,904 | 9.4 |
| Other liquid assets | 725,058 | 0.1 | 19,875,532 | 0.9 |
| Bonds, debentures and notes | 657,587,246 | 31.7 | 496,316,272 | 23.5 |
| Canadian equity securities | 247,338,904 | 11.9 | 480,015,343 | 22.8 |
| Foreign equity securities | 779,729,189 | 37.6 | 821,588,178 | 38.9 |
| Equity investments in real estate | 228,386,849 | 11.0 | 85,756,843 | 4.1 |
| Foreign infrastructure | 142,863,388 | 6.9 | 13,281,295 | 0.6 |
| Currency forwards | 12,729,713 | 0.6 | (483,623) | - |
| Accrual | <u>(16,366,738)</u> | <u>(0.9)</u> | <u>(3,935,468)</u> | <u>(0.2)</u> |
| Total | <u>2,075,518,620</u> | <u>100.0</u> | <u>2,111,685,276</u> | <u>100.0</u> |
| Fund's pro-rated share | <u>67.4374%</u> | | <u>66.8240%</u> | |
| Fund investments ** | <u>1,399,675,231</u> | | <u>1,411,113,177</u> | |

Investment income and realized and unrealized gains (losses) of the Master Trust consist of the following:

| | <u>Investment Income 2016</u> | <u>Change in Fair Value of Investments* 2016</u> | <u>Investment Income 2015</u> | <u>Change in Fair Value of Investments* 2015</u> |
|-----------------------------------|---------------------------------------|--|---------------------------------------|--|
| | \$ | \$ | \$ | \$ |
| Canadian short-term investments | - | (56,125) | - | 50,403 |
| Other liquid assets | 487,889 | (3,213) | 379,667 | (10,668) |
| Bond, debentures, and notes | 15,153,073 | (15,512,372) | 15,347,658 | 20,632,641 |
| Canadian equity securities | 14,234,013 | 3,842,918 | 15,486,230 | 50,551,133 |
| Foreign equity securities | 65,199,152 | (142,086,460) | 49,057,920 | 53,247,838 |
| Equity investments in real estate | - | 14,190,061 | - | 357,041 |
| Foreign infrastructure | 5,520,758 | 8,394,059 | 223,444 | 4,031,651 |
| Currency forwards | <u>1,069,837</u> | <u>(14,079,445)</u> | <u>1,250,071</u> | <u>(17,192,916)</u> |
| Total | <u>101,664,722</u> | <u>(145,310,577)</u> | <u>81,744,990</u> | <u>111,667,123</u> |
| Fund's pro-rated share | <u>67.2095%</u> | <u>67.1404%</u> | <u>66.5531%</u> | <u>66.4780%</u> |
| Fund investments** | <u>68,328,327</u> | <u>(97,562,057)</u> | <u>54,403,789</u> | <u>74,234,057</u> |

* Includes realized gains of \$29.3 million (2015 - gains of \$74.3 million) and unrealized losses of \$174.6 million (2015 - gains of \$37.4 million).

** Rounded

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

3. Investments and Derivatives (continued...)

Investments include amounts which investment managers of the Master Trust have invested in their own pooled funds. The fair values of these investments are as follows:

| | <u>2016</u> | <u>2015</u> |
|--------------------------------------|----------------------|--------------------|
| | \$ | \$ |
| Beutel, Goodman & Company Limited | 22,913,766 | 24,594,129 |
| Lazard Asset Management LLC | 114,707,608 | 272,979,483 |
| Baillie Gifford Overseas Limited | 291,116,898 | 294,747,857 |
| Bentall Kennedy (Canada) LP | 48,013,210 | 44,466,103 |
| Greystone Managed Investments Inc. | 43,783,811 | 41,290,739 |
| Global Infrastructure Partners (GIP) | 28,155,780 | 13,281,295 |
| TD Asset Management | 578,635,600 | - |
| Goldman Sachs Asset Management | 328,791,570 | - |
| State Street Global Advisors Ltd. | <u>136,589,828</u> | <u>-</u> |
| Total | 1,592,708,071 | 691,359,606 |
| Fund's pro-rated share | <u>67.4374%</u> | <u>66.8240%</u> |
| Fund's pooled funds | <u>1,074,080,913</u> | <u>461,994,143</u> |

b) Derivative Contracts

Derivative contracts are financial contracts, the value of which is "derived" from the value of underlying assets or exchange rates. Derivative contracts provide flexibility in implementing investment strategy.

Forward contracts are used to manage currency exposure and mitigate risk with respect to investments held in foreign currencies. The net notional amount of the currency forwards represents the volume of the outstanding transactions and serves as the basis upon which the return and market value of the contract is determined.

The following provides details of the Master Trust's derivative contracts outstanding as of March 31, 2016.

| | <u>2016</u> | <u>2015</u> |
|------------------------|--------------------|--------------------|
| | \$ | \$ |
| Notional Amount | <u>426,457,544</u> | <u>344,725,828</u> |
| Fair Value | <u>12,729,713</u> | <u>(483,038)</u> |

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

3. Investments and Derivatives (continued...)

c) Fair Value Disclosure

Fund investment assets recorded at fair value have been categorized based upon a fair value hierarchy of significant inputs used in measuring fair value. The following fair value hierarchy table presents information about the Fund's assets measured at fair value on a recurring basis at March 31, 2016.

The three levels of the fair value hierarchy are as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the investment manager has the ability to access at the measurement date. Level 1 primarily includes publicly listed investments.

Level 2: Inputs other than quoted prices, that are observable either directly or indirectly, including inputs in markets that are not considered to be active. Level 2 primarily includes debt securities and derivative contracts not traded in an open market.

Level 3: Inputs that are unobservable. There is little, if any, market activity. Inputs into the determination of fair value require significant management judgment and/or estimation. Level 3 primarily consists of foreign infrastructure investments.

The following table illustrates the classifications of the Fund's financial instruments using the fair value hierarchy as at March 31.

| | 2016 | | | Total \$ |
|---|----------------------|--------------------|-------------------|----------------------|
| | Level 1 \$ | Level 2 \$ | Level 3 \$ | |
| Canadian short-term investments | 22,525,011 | - | - | 22,525,011 |
| Other liquid assets | 725,058 | - | - | 725,058 |
| Bond, debentures, and notes | - | 657,587,246 | - | 657,587,246 |
| Canadian equity securities | 247,338,904 | - | - | 247,338,904 |
| Foreign equity securities | 779,729,189 | - | - | 779,729,189 |
| Equity investments in real estate | - | 228,386,849 | - | 228,386,849 |
| Foreign infrastructure | 114,707,608 | - | 28,155,780 | 142,863,388 |
| Currency forwards | - | 12,729,713 | - | 12,729,713 |
| Totals | <u>1,165,025,770</u> | <u>898,703,808</u> | <u>28,155,780</u> | 2,091,885,358 |
| Accrual | | | | <u>(16,366,738)</u> |
| Total financial assets at fair value | | | | 2,075,518,620 |
| Fund's pro-rated share | | | | 67.4374% |
| Fund investments * | | | | <u>1,399,675,231</u> |

*Rounded

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

3. Investments and Derivatives (continued...)

| | 2015 | | | Total |
|---|----------------------|--------------------|-------------------|----------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | |
| | \$ | \$ | \$ | \$ |
| Canadian short-term investments | 36,542,791 | 162,728,113 | - | 199,270,904 |
| Other liquid assets | 19,875,532 | - | - | 19,875,532 |
| Bond, debentures, and notes | - | 496,316,272 | - | 496,316,272 |
| Canadian equity securities | 480,015,343 | - | - | 480,015,343 |
| Foreign equity securities | 817,141,986 | 4,446,192 | - | 821,588,178 |
| Equity investments in real estate | - | 85,756,843 | - | 85,756,843 |
| Foreign infrastructure | - | - | 13,281,295 | 13,281,295 |
| Currency forwards | - | (483,623) | - | (483,623) |
| Totals | <u>1,353,575,652</u> | <u>748,763,797</u> | <u>13,281,295</u> | 2,115,620,744 |
| Accrual | | | | <u>(3,935,468)</u> |
| Total financial assets at fair value | | | | 2,111,685,276 |
| Fund's pro-rated share | | | | <u>66.8240%</u> |
| Fund investments * | | | | <u>1,411,113,177</u> |

* Rounded

There were no significant transfers between level 1 and level 2 financial instruments during the year ended March 31, 2016.

The following table details changes in fair value measurement in Level 3 of the fair value hierarchy.

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| | \$ | \$ |
| Level 3 investments, April 1 | 13,281,295 | 13,990,894 |
| Net purchases (sales) | 12,255,992 | (6,112,091) |
| Realized (losses) gains | (46) | 6,994,997 |
| Unrealized gains (losses) | 2,435,022 | (3,357,973) |
| Foreign exchange gains | <u>183,517</u> | <u>1,765,468</u> |
| Total financial assets at fair value | <u>28,155,780</u> | <u>13,281,295</u> |
| Fund's pro-rated share | <u>67.4374%</u> | <u>66.8240%</u> |
| Level 3 investments, March 31 | <u>18,987,526</u> | <u>8,875,093</u> |

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

3. Investments and Derivatives (continued...)

d) Investment Risk Management

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to foreign currency, interest rate volatility, market price fluctuations, credit risk, and liquidity risk. The Fund has set formal goals, policies, and operating procedures that establish an asset mix among equity and fixed income, require diversification of investments within categories, and set limits on the size of exposure to individual investments and counter parties. Risk and credit considerations are periodically assessed in consultation with external consultants, the Department of Finance and the Master Trust Investment Advisory Committee. Plan sponsor oversight, procedures, and compliance functions are incorporated into Fund processes to achieve consistent controls and to mitigate operational risk.

(i) Interest Rate Risk

Interest rate risk refers to the fact that the Fund's financial position will change with market interest rate changes as fixed income securities are sensitive to changes in nominal interest rates. Interest rate risk is inherent in the management of a pension plan due to prolonged timing differences between cash flows related to the Fund's assets and liabilities.

Assuming all other variables are held constant, a one percentage point change in nominal interest rates would change the fair value of the Fund by \$31.2 million.

| | <u>Value of Fixed Income Securities</u> \$ | <u>Weighted Average Duration</u> yrs | <u>Percentage Point Change</u> % | <u>Impact on Fair Value of the Master Trust</u> \$ | <u>Fund's Pro-rated Share</u> % | <u>Pro-rated Impact on Fair Value of the Fund</u> \$ |
|------|---|---|---|---|--|---|
| 2016 | 657.6 m | 7.04 | 1 | 46.3 m | 67.4374 | 31.2 m |

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

3. Investments and Derivatives (continued...)

(ii) Price Risk

Price risk is the risk of fluctuation in market values of investments from influences specific to a particular investment or from influences on the market as a whole. Price risk includes interest rate and foreign currency risk. Market price risk is managed by the Fund through the use of diversified investment portfolios traded on various markets and across various industries. Assuming all other variables are held constant, a 10 percent change in market values of all public equities would change the fair value of the Fund by \$92.4 million.

| | <u>Value of Public Equities</u> \$ | <u>Percentage Change</u> % | <u>Impact on Fair Value of the Master Trust</u> \$ | <u>Fund's Pro-rated Share</u> % | <u>Pro-rated Impact on Fair Value of the Fund</u> \$ |
|------|---|-----------------------------------|---|--|---|
| 2016 | 1,370.2 m | 10 | 137.0 m | 67.4374 | 92.4 m |

(iii) Credit Risk

Credit risk is the risk of loss in the event the counter party to a transaction fails to discharge an obligation and causes the other party to incur a loss. Credit risk associated with the Fund is periodically assessed in consultation with external consultants, the Department of Finance and the Master Trust Investment Advisory Committee.

Fixed income

The Fund is exposed to credit risk from interest earning investments at March 31, as follows:

| | <u>2016</u> <u>(millions)</u> \$ | <u>2015</u> <u>(millions)</u> \$ |
|---|--|--|
| Federal government | 79.4 | 199.1 |
| Provincial government | 152.0 | 51.0 |
| Corporate | 361.7 | 416.7 |
| Government agencies | 65.1 | - |
| Total investment credit risk exposure | 658.2 | 666.8 |
| Fund's pro-rated share | 67.4374% | 66.8240% |
| Fund's investment credit risk exposure | 443.9 | 445.6 |
| Provincial government promissory note | 337.1 | 357.3 |
| Fund's total credit risk exposure | <u>781.0</u> | <u>802.9</u> |

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

3. Investments and Derivatives (continued...)

Security lending

The Fund participates in a Securities Lending Program whereby it lends securities for a fee to approved borrowers. To alleviate the credit risk, borrowers must provide collateral with a value of 105 percent of the value of the securities lent. The market value of the collateral is monitored by the custodian at least daily to ensure that the 105 percent threshold is maintained. In addition, security loans are allocated across various borrowers within the program and the Fund holds indemnification coverage, which mitigates the credit and market risk on the collateral.

The fair value of security loans outstanding and collateral held is as follows:

| | <u>2016</u> | <u>2015</u> |
|--|--------------------|--------------------|
| | \$ | \$ |
| Total security loans outstanding | 217,328,139 | 326,056,344 |
| Fund's pro-rated share | <u>67.4374%</u> | <u>66.8240%</u> |
| Fund's security loans outstanding | <u>146,560,446</u> | <u>217,883,891</u> |
| | | |
| Total collateral held | 228,195,749 | 342,359,461 |
| Fund's pro-rated share | <u>67.4374%</u> | <u>66.8240%</u> |
| Fund's collateral held | <u>153,889,280</u> | <u>228,778,286</u> |

Derivatives

The Fund is exposed to credit related losses in the event of non performance by counter parties to derivative financial instruments. In order to mitigate this risk, the Fund deals only with highly rated counter parties, with whom International Swap and Derivative Association agreements have been executed, normally major financial institutions with a minimum credit standard of "A" rating, as supported by a recognized credit rating agency.

Credit risk represents the maximum amount that would be at risk as at the reporting date if the counter parties failed completely to perform under the contracts, and if the right of offset proved to be non enforceable. Credit risk exposure on derivative financial instruments is represented by the receivable replacement cost of contracts with counter parties, less any prepayment collateral or margin received as at the reporting date.

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

3. Investments and Derivatives (continued...)

(iv) Foreign Currency Risk

Foreign currency risk is the risk that the value of the future cash flow of the financial instrument will fluctuate because of changes in foreign exchange rates. Consequently, the Fund is exposed to the risk that the exchange rates of the various currencies may change in a manner that has an adverse effect on the value of the portion of the Fund's assets denominated in currencies other than the Canadian dollar. Foreign currency exposure arises from the holding of investments denominated in foreign currencies. A policy of hedging from 0 to 100 percent of the currency exposure is used to mitigate this risk.

The Fund's unhedged currency exposure from net investment assets as at March 31, is summarized in the following table.

| | 2016 | 2015 |
|---|---------------------|---------------------|
| | (millions) | (millions) |
| | \$ | \$ |
| Currency | | |
| Brazil | 1.5 | 1.4 |
| Switzerland | - | 13.4 |
| Euro Zone | 65.4 | 52.5 |
| United Kingdom | 40.6 | 46.3 |
| Hong Kong | 17.0 | 22.4 |
| Japan | 60.2 | 46.9 |
| Sweden | 13.9 | 9.4 |
| United States | 234.0 | 212.7 |
| Other | <u>54.2</u> | <u>53.2</u> |
| Total | 486.8 | 458.2 |
| Fund's pro-rated share | <u>67.4374%</u> | <u>66.8240%</u> |
| Fund's foreign currency exposure | <u><u>328.3</u></u> | <u><u>306.2</u></u> |

After the effect of hedging, and without a change in all other variables, a 10 percent change in the Canadian dollar against all other currencies would change the fair value of the Fund by \$32.8 million.

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

3. Investments and Derivatives (continued...)

(v) Liquidity Risk

Liquidity risk is the risk of not meeting the cash obligations of the Fund in an efficient manner. Cash obligations are fulfilled from contributions to the Fund, cash income of the Fund, and disposition of Fund assets as required. Cash requirements of the Fund are reviewed on an ongoing basis to provide for the orderly availability of resources to meet the financial obligations of the Fund.

The Fund's cash management policy ensures that the quality and liquidity of the investment vehicles within the portfolios are consistent with the needs of the Fund.

4. Accrued Pension Obligation

a) Actuarial Valuation

The present value of the accrued pension obligation was determined using the projected unit credit method pro-rated on service and managements best estimate, as at the valuation date, of future economic events and involve economic and non economic assumptions. The non economic assumptions include considerations such as mortality and retirement rates. The primary economic assumptions include the return on investment, discount, inflation, and salary escalation rates.

The most recent actuarial valuation for accounting purposes prepared by the actuarial consulting firm Morneau Shepell, disclosed a base benefit liability of \$1,508,408,000 as at April 1, 2016. The actuarial liabilities and accrued benefit obligation as at April 1, 2016 are extrapolated from the actuarial liabilities and accrued benefit obligation determined as in the report of the actuarial valuation as at April 1, 2015 for funding and accounting purposes. This represents a change in methodology from the previous valuation. An actuarial valuation of the Civil Service Superannuation Fund is performed annually as at April 1st and is required to be completed by December 31st of each year.

The total accrued benefit consists of the following:

| | |
|--|----------------------|
| Base benefit liability | 1,508,408,000 |
| Contingent indexation liability ¹ | <u>234,496,000</u> |
| Total accrued benefit obligation | <u>1,742,904,000</u> |

¹ The contingent indexation liability is calculated based on total plan assets less the accrued benefit obligation assuming no future contingent indexation. This calculation does not incorporate the potential impact of future events such as contributions, gains, losses on asset returns and new benefit accruals.

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

4. Accrued Pension Obligation (continued...)

The assumptions for the most recent valuations performed at April 1, 2016 are as follows:

| | 2016 | 2015 |
|---|--|--|
| Inflation | 2.25% | 2.25% |
| Discount Rate | 5.25% for 10 years, 5.90% thereafter | 5.50% for 9 years, 5.90% thereafter |
| Expected Rate of Return of Plan Assets | 5.25% for 10 years, 5.90% thereafter | 5.50% for 9 years, 5.90% thereafter |
| Salary Escalation | Basic increase of 2.75% per annum + promotional scale | Basic increase of 2.75% per annum + promotional scale |
| Pre-Retirement Indexation | 1.50% per annum for 2016, 2.75% per annum for 10 years, 0% per annum thereafter | 1.50% per annum for 2015 - 2016, 2.75% per annum for 16 years, 0% per annum thereafter |
| Post-Retirement Indexation (includes deferred pensioners) | 1.50% per annum for 2016, 2.25% per annum for 4 years, 0% per annum thereafter | 1.50% per annum for 2015 - 2016, 2.25% per annum for 10 years, 0% per annum thereafter |
| Mortality | CPM2014Publ with future improvements based on CPM Scale B and adjustments of 1.10 for males and 0.95 for females | CPM2014Publ with future improvements based on CPM Scale B and adjustments of 1.10 for males and 0.95 for females |
| Termination | Tenure - based scale | Tenure - based scale |
| Retirement Age | Service and age - based scale | Service and age - based scale |
| Proportion Married | Age and gender - based scale | Age and gender - based scale |
| Age Difference for Spouses | Males 2 years older than female spouses | Males 2 years older than female spouses |

b) Sensitivity of Changes in Major Assumptions

The Fund's future experience may differ from the assumptions used in the actuarial valuation. Any differences between the actuarial assumptions and future experience could be significant and will emerge as experience gains or losses in future valuations which will affect the financial position of the Fund.

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

5. Funding Policy

Prior to the Plan conversion, the Province was committed to make payments if the assets of the CSSF were insufficient to provide for pension payments as they became due. In addition, a funding policy existed which required the Province to make special contributions when the CSSF's funding level declined below 90 percent.

Special contributions made under this funding policy were as follows:

- (i) As a result of an unfunded liability at April 1, 2005, the Province of Prince Edward Island made a special contribution through the signing of a \$52,000,000 promissory note. The note, which is held by the Fund, is receivable in ten equal annual instalments of \$5,200,000 beginning October 15, 2006. Interest on the note is accrued at a rate of 4.41 percent per annum, and is receivable semi-annually on April 15, and October 15.

The following is a schedule of principal and interest payments as disclosed in the promissory note.

| <u>Date of Payment</u> | <u>Principal Payments</u> | <u>Interest Payments</u> | |
|------------------------|--------------------------------|--------------------------|-----------------------|
| | <u>Principal Payment</u> \$ | <u>October 15</u> \$ | <u>April 15</u> \$ |
| October 15, 2006 | 5,200,000 | - | 1,031,940 |
| October 15, 2007 | 5,200,000 | 1,031,940 | 917,280 |
| October 15, 2008 | 5,200,000 | 917,280 | 802,620 |
| October 15, 2009 | 5,200,000 | 802,620 | 687,960 |
| October 15, 2010 | 5,200,000 | 687,960 | 573,300 |
| October 15, 2011 | 5,200,000 | 573,300 | 458,640 |
| October 15, 2012 | 5,200,000 | 458,640 | 343,980 |
| October 15, 2013 | 5,200,000 | 343,980 | 229,320 |
| October 15, 2014 | 5,200,000 | 229,320 | 114,660 |
| October 15, 2015 | <u>5,200,000</u> | <u>114,660</u> | - |
| | <u>52,000,000</u> | <u>5,159,700</u> | <u>5,159,700</u> |

- (ii) As a result of an unfunded liability at April 1, 2011, the Province of Prince Edward Island made a special contribution through the signing of a \$150,761,400 promissory note. The note, issued December 11, 2012, is held by the Fund and is receivable in ten equal annual instalments of \$15,076,140 beginning April 1, 2013. Interest on the note is accrued from April 1, 2012, at a rate of 2.9 percent per annum, and is receivable semi-annually on April 1 and October 1.

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

5. Funding Policy (continued...)

The following is a schedule of principal and interest payments as disclosed in the promissory note:

| <u>Date of Payment</u> | <u>Principal Payments</u> | <u>Interest Payments</u> | |
|------------------------|--------------------------------|--------------------------|------------------------|
| | <u>Principal Payment</u> \$ | <u>April 1</u> \$ | <u>October 1</u> \$ |
| April 1, 2012 | - | - | 2,186,041 |
| April 1, 2013 | 15,076,140 | 2,186,041 | 1,967,436 |
| April 1, 2014 | 15,076,140 | 1,967,436 | 1,748,832 |
| April 1, 2015 | 15,076,140 | 1,748,832 | 1,530,228 |
| April 1, 2016 | 15,076,140 | 1,530,228 | 1,311,624 |
| April 1, 2017 | 15,076,140 | 1,311,624 | 1,093,020 |
| April 1, 2018 | 15,076,140 | 1,093,020 | 874,416 |
| April 1, 2019 | 15,076,140 | 874,416 | 655,812 |
| April 1, 2020 | 15,076,140 | 655,812 | 437,208 |
| April 1, 2021 | 15,076,140 | 437,208 | 218,604 |
| April 1, 2022 | <u>15,076,140</u> | <u>218,604</u> | <u>-</u> |
| | <u>150,761,400</u> | <u>12,023,221</u> | <u>12,023,221</u> |

As part of the Plan conversion, the Province's requirement to make payments if the assets of the CSSF was insufficient to provide for pension payments as they became due was removed, the funding policy was rescinded and they were replaced by the following Government guarantee:

- Beginning on April 1, 2016, if the funded benefits ratio of the Plan falls below 100 percent (of base benefits) and, after reflecting the future contributions as described in Note 1(b), the Plan is still not projected to achieve a funded benefits ratio of at least 100 percent within five years, the Province is required to make an additional contribution equal to one fifth of the additional amount required to restore the funded benefits ratio to 100 percent within five years. This is reviewed on an annual basis and the contribution amount will be subject to change each year.

In addition, the Province committed to make a one-time transitional contribution (transitional government funding amount) to the Plan on or before December 31, 2014 such that, if that contribution had been made on January 1, 2014, the total assets of the Fund would have equalled:

- 122 percent of the total liabilities of the Fund excluding the liabilities for salary indexing and pension indexing for any year after 2013; plus
- 100 percent of the liabilities for salary indexing and pension indexing for 2014, 2015 and 2016.

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

5. Funding Policy (continued...)

The transitional government funding amount was contributed to the CSSF by the Province of Prince Edward Island through the signing of a \$231,530,000 promissory note. The note, issued December 29, 2014, is held by the Fund and is receivable in seven equal annual instalments of \$33,075,714 beginning January 1, 2023. Interest on the note is accrued from January 1, 2014 at a rate of 4.14 percent per annum and is receivable semi-annually on January 1 and July 1. At March 31, 2014, a receivable was recognized for the outstanding note and classified as an employer special contribution.

The following is a schedule of principal and interest payments as disclosed in the promissory note:

| <u>Date of Payment</u> | <u>Principal Payments</u> | | <u>Interest Payments</u> | |
|------------------------|---------------------------|--|--------------------------|-------------------|
| | <u>Principal Payment</u> | | <u>January 1</u> | <u>July 1</u> |
| | \$ | | \$ | \$ |
| January 1, 2014 | - | | - | 4,792,671 |
| January 1, 2015 | - | | 4,792,671 | 4,792,671 |
| January 1, 2016 | - | | 4,792,671 | 4,792,671 |
| January 1, 2017 | - | | 4,792,671 | 4,792,671 |
| January 1, 2018 | - | | 4,792,671 | 4,792,671 |
| January 1, 2019 | - | | 4,792,671 | 4,792,671 |
| January 1, 2020 | - | | 4,792,671 | 4,792,671 |
| January 1, 2021 | - | | 4,792,671 | 4,792,671 |
| January 1, 2022 | - | | 4,792,671 | 4,792,671 |
| January 1, 2023 | 33,075,714 | | 4,792,671 | 4,108,004 |
| January 1, 2024 | 33,075,714 | | 4,108,004 | 3,423,336 |
| January 1, 2025 | 33,075,714 | | 3,423,336 | 2,738,669 |
| January 1, 2026 | 33,075,714 | | 2,738,669 | 2,054,002 |
| January 1, 2027 | 33,075,714 | | 2,054,002 | 1,369,335 |
| January 1, 2028 | 33,075,714 | | 1,369,335 | 684,667 |
| January 1, 2029 | <u>33,075,716</u> | | <u>684,667</u> | - |
| | <u>231,530,000</u> | | <u>57,512,052</u> | <u>57,512,052</u> |

Subsection 5(5) of the *Civil Service Superannuation Act* stipulates that none of the above promissory notes may be cancelled or recalled by the Province prior to maturity unless the Province contributes to the CSSF assets equal to or greater than the value of the promissory notes on the date of cancellation or recall.

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

6. Operating Expenses

The Fund is charged with administrative and operating expenses. The following is a summary of these expenses.

| | <u>2016</u> | <u>2015</u> |
|---|------------------|------------------|
| | \$ | \$ |
| Administration expenses - pension section | 917,814 | 923,598 |
| - investment section | <u>119,472</u> | <u>115,621</u> |
| | 1,037,286 | 1,039,219 |
| Consulting fees | 852,902 | 427,763 |
| Actuarial fees | 91,683 | 322,316 |
| Investment expenses | | |
| Custodian | 195,056 | 218,126 |
| Monitoring | 263,184 | 188,617 |
| Management | <u>4,959,836</u> | <u>4,681,679</u> |
| | <u>7,399,947</u> | <u>6,877,720</u> |

7. Related Party Transactions

The Province of Prince Edward Island is the sponsor of the Plan. At the financial statement date, the Province has committed to the funding requirements as defined by the Funding Policy (Note 5). As a participating employer, the Province contributes regular bi-weekly employee and eligible prior period service contributions. Employee and employer contributions receivable from the Province as at March 31, 2016, totalled \$1,213,305 (2015 - \$1,046,398).

The Province provides pension and investment administration services to the Fund. A portion of the Province's costs relating to these services is recovered annually from the Fund. Costs recovered for the Pension section totalled \$734,647 (2015 - \$754,460) and recoveries related to the Investment section totalled \$119,472 (2015 - \$115,621). Other costs recovered by the Province totalled \$145,862 (2015 - \$142,603).

The total amount payable to the Province at March 31, 2016, was \$1,137,645 (2015 - \$1,153,988).

Total notes, special contribution and interest receivable from the Province at March 31, 2016, was \$340,976,304 (2015 - \$361,576,258).

PRINCE EDWARD ISLAND CIVIL SERVICE SUPERANNUATION FUND

Notes to Financial Statements
March 31, 2016

8. Capital Management

The main objective of the Fund is to sustain a level of net assets in order to meet the pension obligations of the Fund. The Plan sponsor manages the contributions received and benefits paid as required by the *Civil Service Superannuation Act*.

In an effort to utilize economies of scale, contributions for the Province's three registered pension plans are pooled and invested together in the Province's Master Trust (the Master Trust). Each pension plan holds units of the Master Trust in proportion to the value of contributions made. The Province has developed a Statement of Investment Policies and Procedures (SIP&P) to provide the framework for how the Master Trust's assets are to be invested, monitored, and evaluated. Assets are managed by engaging knowledgeable, external investment managers who are charged with the responsibility of investing new and existing funds in accordance with the SIP&P. A Master Trust Investment Advisory Committee exists for the purpose of protecting the pension fund assets, monitoring asset mix, reviewing costs, reviewing investment returns, and assessing investment manager performance, as well as providing advice to the Minister of Finance who serves as Trustee for the Province's three registered pension plans.

9. Commitment

The Master Trust has entered into an arrangement with Global Infrastructure Partners (GIP) where it has committed to invest \$35 (US) million in its GIP II Fund. GIP is an independent infrastructure fund manager that invests in high quality infrastructure assets in the energy, transport, water, and waste sectors; \$31.2 (US) million has been invested as of the audit report date.

In the current year, the Master Trust committed to invest \$75 (US) million with GIP in its GIP III Fund. As of the audit report date, \$48.3 (US) million has been invested.